APPLICANTS' EX. 12.0

REBUTTAL TESTIMONY

OF

LEE R. NICKLOY

DOCKET NO. 02-0428

Q. Please state your name, employment position and business address.

A. My name is Lee R. Nickloy, and I am employed by Ameren Services Company as General Manager, Corporate Finance and Development in the Treasurer's Function. I also hold the position of Assistant Treasurer for Ameren Corporation and subsidiaries, including AmerenCIPS and AmerenUE. My business address is 1901 Chouteau Avenue, St. Louis, MO 63103.

Q. Please provide your educational and employment background.

A. My educational and employment history is set forth on Applicants' Exhibit 12.1.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the recommendation of Mr. David Effron, who has submitted testimony on behalf of the Office of the Attorney General of Illinois ("AG"), that Ameren be required to commit to an earnings cap equal to an 11.00% return on common equity for CILCO in the years 2005 and 2006.

Q. Please summarize Mr. Effron's position.

A. Mr. Effron is concerned with what he believes could be, under certain circumstances, an adverse effect of the transaction whereby Ameren will acquire

CILCORP on CILCO's electric rates. Mr. Effron notes that under the terms of the Customer Choice Law, the rate freeze that is in effect for all other Illinois electric utilities through 2006 is only effective through 2004 for CILCO – unless CILCO is acquired by another Illinois utility or its holding company, in which case the electric rate freeze will be in effect through 2006 for CILCO, as well. He calculates CILCO's electric return on common equity, making some adjustments, from FERC Form 1 data for the years 1999-2001, and then states that, based on those calculations, there is a possibility that CILCO's electric ROE in 2005 could exceed the level required for a reasonable return. He argues that, absent the transaction, assuming that CILCO continues to overearn (by his calculations), CILCO's electric rates would decrease in 2005. Since rates will remain frozen because CILCO is being acquired by Ameren, he argues that there will be an adverse impact on rates unless the Commission requires Ameren to commit "voluntarily" to cap CILCO's 2005 and 2006 electric ROE at 11.00% by refunding all earnings in excess of that amount to customers.

Q. Do you believe that Mr. Effron's recommendation is reasonable?

A. Mr. Effron's proposal is not reasonable. What Mr. Effron seeks to do is establish some sort of proxy for a full rate case that would have concluded that 11.00% would be an appropriate ROE for CILCO's electric operations in 2005-2006. Nowhere, however, does he engage in any sort of analysis that would support the use of such an ROE for CILCO in that period. More importantly, however, Mr. Effron misses a more significant issue: the differential in credit quality of AES versus Ameren as evidenced by credit ratings issued by independent credit rating agencies. One of the fundamental principles of finance is the concept of risk and return. A greater degree of risk requires a higher return and vice versa. If choosing between two investments of differing risk profiles the investor will demand a greater return in exchange for accepting the investment exhibiting the higher degree of risk. In other words, the investor must be compensated for being exposed to risk, the relationship between risk and compensation (return) is direct. As I will explain below, the risk profile of CILCO will be much different as a subsidiary of Ameren as compared to remaining a subsidiary of AES.

Q. Notwithstanding the more significant financial issues that should be considered, can you determine what a reasonable ROE would be for CILCO in 2005 if Ameren does not close the transaction?

A. No, I cannot, and I do not believe that anyone else can either. There are simply too many variables and uncertainties at this point. I can say, however, the likely risk profile that CILCO would present if it is not sold soon suggests a likely required ROE far in excess of that proposed by Mr. Effron, if CILCO is to be in any position to raise capital to undertake improvements to CILCO's electric system and service and possibly, to maintain its financial integrity.

Q. Please comment on Mr. Effron's contention that 11.00% would be a reasonable return on common equity for CILCO in 2005 and 2006.

A. It is unclear how Mr. Effron arrives at such a conclusion. His analysis assumes that, absent acquisition by Ameren, CILCO's rates could be reset in 2005. But if Ameren does not acquire CILCO in 2005, it is by no means clear that CILCO's required ROE would be so low. As a general matter, the riskier a company is, the higher the return on equity that investors require in order to attract capital;

conversely, the lower the risk, the lower the return on equity that is required. Additionally, one method for estimating the required return on equity is partially a function of the interest rate on so-called “risk free” investments, such as U.S. government long bonds. Under this model approach, as those interest rates rise and fall, there is an effect on equity returns required by investors (though this does not mean that the term structure or absolute level of interest rates are necessarily directly correlated to the returns required by equity investors). Another commonly used method for estimating required equity returns uses current stock prices, dividends and analysts’ growth expectations. Unless Mr. Effron has developed some reliable method of accurately forecasting interest rates, stock prices, dividends and the expectations for growth published by Wall Street equity analysts three years hence, his argument that 11.0% would be a reasonable return for CILCO or another other firm at that future date lacks quantitative basis and is effectively baseless in this proceeding. Further, estimating an entity’s cost of equity capital requires a much greater degree of financial rigor and analysis than what Mr. Effron has presented. By proposing that 11.0% would be a fair return on equity in 2005, Mr. Effron is implicitly assuming both that interest rates at that time will be comparable to those we see today and that CILCO will exhibit a risk profile characteristic of lower risk, relative to other electric utilities and to the market generally. (I emphasize that I am not conceding that 11.00% would be a sufficient common equity return for Ameren or for any other entity providing regulated utility operations; I only intend to observe where such a return falls along the spectrum of regulatory-approved returns.)

Q. Please comment on the credit quality differential between AES and Ameren.

A. One principal benefit that Ameren brings to CILCO is credit quality enhancement and a greater degree of financial stability. Ameren Corporation is currently rated A2/A (senior unsecured) by Moody's and S&P, respectively. These ratings levels are indicative of a solid, investment grade entity. In contrast, the senior unsecured ratings of The AES Corporation are B3/B+, soon to be B3/B- once AES' pending exchange offer is completed. Ratings at these levels are indicative of a highly speculative credit and are one notch above a rating category indicative of an imminent or ongoing default situation. Moreover, this is not an accident or ratings anomaly. Since late 1998, AES' ratings have deteriorated from Baa3 to B3 at Moody's (a decline of 6 notches) and from BB to B- (assuming its exchange offer is completed) at S&P (a decline of 4 notches). To put a low B rating in context, based on Moody's 1983 – 2001 cumulative default tables, on average a B3 credit experienced a default event within one year 12.5% of the time and within 5 years 41.1% of the time. Given the negative outlook assigned by Moody's indicating Moody's concern that events may likely occur which would drive the rating even lower, AES could become a Caa-C rated credit. At this rating level, a default was realized 21.6% of the time within one year and 57.4% of the time within 5 years. The current exchange offer is designed to delay near-term debt maturities and cancel debt that will become putable next year. The new debt to be issued will be secured by all of AES' equity interests in its domestic businesses and 65% of its foreign businesses. Investors react to the credit quality and level of investment risk exhibited by an issuer via the market pricing of the subject company's securities. AES' closing stock price on Oct. 18, 2002 was $1.29 – this speaks for itself. Yields on AES' outstanding bonds range from 28% - 34%. By comparison the yield on a 10-year Treasury bond is 4.1% and a 10-year unsecured bond issued by Ameren would price with a yield around 5.5%.

Q. How does AES' risk profile affect CILCO's risk profile?

A. AES' circumstances will make CILCO more dependent on debt as a source of capital. AES lacks ready access to capital to invest in CILCO. Accordingly, CILCO will need to access even more costly debt to satisfy its capital needs, making the equity investment in CILCO riskier. CILCO's senior secured debt is presently rated BBB- by S&P, which is one notch above "junk" status and reflects the AES risk overhang. S&P has CILCO's ratings on positive credit watch based on the pendency of the Ameren acquisition and their expectation that CILCO's ratings will improve upon the consummation of that transaction.

Q. Would an 11.00% ROE be reasonable for CILCO if it is acquired by Ameren?

A. That is not a relevant question. Mr. Effron is trying to create a proxy for what would happen if CILCO were not acquired by Ameren. Mr. Effron cannot have it both ways. The statute provides two clear paths in these circumstances: 1) AES continues to own CILCO and the rate freeze ends on January 1, 2005; or 2) Ameren acquires CILCO and the rate freeze ends on January 1, 2007.

Mr. Effron's analysis effectively assumes that Ameren acquires CILCO (and CILCO thus benefits from the higher quality Ameren credit and Ameren's greater access to lower cost capital), and that the rate freeze ends as if Ameren did not acquire CILCO. There is no sound basis for using a lower risk cost of capital for a higher risk company, which is exactly what CILCO would be if AES does not close the deal with Ameren.

Q. In his testimony, Mr. Effron cites historical returns on equity by CILCO of as high as 15.82%. Could such a return be reasonable for CILCO in 2005 if the acquisition does not close?

A. Yes, it could be reasonable. Whether it is reasonable will depend, as I have noted, on several factors, including CILCO's credit status. The only evidence we have available to us today about CILCO's possible future credit status is the very clear position of the ratings agencies and the financial risk and uncertainty that CILCO will face if AES does not successfully complete the transaction with Ameren. Thus, without a closing of this transaction, CILCO will be a markedly riskier investment. As CILCO's debt instruments could descend into "junk" status due to the continued and likely exacerbated financial distress of its parent, the required equity return will be (all other things being equal) higher. A required ROE in excess of the 15.82% cited by Mr. Effron is not out of the question. This discussion should highlight just how speculative Mr. Effron's thoughts are about future required returns for a utility subsidiary of a holding company facing serious credit pressures and repeated downgrades. It should also highlight a significant benefit that the financially stronger Ameren brings to CILCO.

Q. Could a decline in CILCO's credit ratings cause elements of CILCO's cost of service other than the required ROE to increase?

A. Yes, it could. Many items reflected in a utility's cost of service are items that it purchases from outside vendors – everything from system gas to construction materials. The terms and conditions on which the utility purchases these items depend in great part on the utility's credit status. A decline in CILCO's credit status could cause CILCO's costs to increase, either in the form of higher prices, where the vendor still extends credit, or costly purchase arrangements, where the vendor does not. Such purchase arrangements could include prepayments, letters of credit, and other collateral requirements that would increase the utility's costs. Mr. Effron does not adjust his calculations CILCO's future returns to reflect any of these costs.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

QUALIFICATIONS OF LEE R. NICKLOY

My name is Lee R. Nickloy, and my business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103. I am General Manager – Corporate Finance and Development for Ameren Services Company. I also hold the position of Assistant Treasurer for Ameren Corporation and its subsidiaries.

In my current position, I am responsible for monitoring and maintenance of cost of capital, management and administration of long-term financing, coordination of all short-term liquidity facilities including bank lines of credit, as well as activities relating to the assessment of potential investments. I have been employed by Ameren since August 1998.

During late 1995 I became Manager of Counterparty Risk for TransCanada Energy USA Inc. In this position I managed the company's counterparty risk exposure for a broad range of energy trading and marketing businesses and natural gas processing assets. This responsibility entailed detailed assessment of the financial condition and capitalization of the company's counterparties and trading partners. I conducted financial due diligence for the company's new business and asset acquisition group. In this position I also negotiated and managed the company's domestic bank financing facilities and parental guarantees. I left the company in 1998 accepting a position with Ameren.

In 1994 I accepted the position of Assistant Treasurer with Enjet, Inc., a privately-held crude oil refining and products trading company based in Houston, TX with operations in the U.S. Gulf Coast area and internationally. I was promoted to Treasurer later that same year and was responsible for financing the company's operational and trading activities. I negotiated and managed all financing facilities, issued debt, was responsible for banking relationships and cash management, and directed the company's trading activities to maximize profitability given certain capital constraints.

Upon graduation from college I was employed by Shell Oil Company in the Chicago, IL marketing division. In 1992, I was promoted to Financial Analyst in the company's refining and marketing organization and transferred to the company's headquarters in Houston, TX.

I graduated Magna Cum Laude with a Bachelor of Science degree from Christian Brothers University in Memphis, Tennessee in 1989. I earned a triple concentration in the Economics/Finance, Management, and Marketing programs of study.